

Message Text

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ORIGIN ARA-10

INFO OCT-01 ISO-00 (ISO) R

66011

DRAFTED BY: ARA/ECP/ITE:SMAYFIELD:PAM

APPROVED BY: ARA/ECP/ITE:SMAYFIELD

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R 091705Z DEC 76

FM SECSTATE WASHDC

TO AMEMBASSY PANAMA

AMEMBASSY GUATEMALA

C O N F I D E N T I A L STATE 299440

FOLLOWING REPEAT MANAGUA 5474 ACTION SECSTATE, INFO JAKARTA,
USCINCSO DTD 26 NOV 76.

QTE: C O N F I D E N T I A L MANAGUA 5474

USCINCSO FOR POLAD

E.O. 11652: GDS

TAGS: BENC, ECRE, EINV, ENRG, PFOR, SENV, ID, NU, PN, US

SUBJECT: NICARAGUA'S PROPOSED TRANS-ISTHMIAN PIPELINE

REF: (A) MANAGUA 2345 (NOTAL) (B) 74 MANAGUA 4775

(C) 72 MANAGUA 2307 (NOTAL) (D) MANAGUA A-102 18 OCT 72

BEGIN SUMMARY: PRESIDENT SOMOZA HAS MADE FUNDAMENTAL POLITICAL DECISION TO BUILD 150-MILE PIPELINE ACROSS NICARAGUA TO TRANSSHIP ALASKAN AND INDONESIAN OIL TO EASTERN US MARKETS. CALIFORNIA CONSORTIUM HAS PRELIMINARY CONTRACT TO CONDUCT LOCATION STUDIES AND TO LINE UP FINANCING. SOMOZA INSISTS ON CONSTRUCTION OF REFINERY SIMULTANEOUSLY WITH PIPELINE PROJECT. A SOMOZA FIRM WILL REPORTEDLY GET SIZEABLE CUT OF THIS \$700 MILLION PLUS DEAL. SOMOZA HAS BEEN VERY CAGEY ABOUT PROVIDING DETAILS OF PROJECT BUT INDICATED INDONESIANS HAVE BEEN CONTACTED. NOTWITHSTANDING SIGNIFICANT GAPS IN EMBASSY'S KNOWLEDGE ABOUT THIS DEAL, EMBASSY BELIEVES PROJECT COULD HAVE IMPORTANT STRATEGIC, POLITICAL AND ECONOMIC IMPLICATIONS FOR US. EMBASSY REQUESTS COMMENTS AND AVAILABLE BACKGROUND INFO. END SUMMARY.

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1. EMBASSY REPORTED LAST MAY (REFTEL A) THAT PRESIDENT SOMOZA HAD TOLD AMBASSADOR THAT HE WAS SERIOUSLY INTERESTED IN BUILDING A TRANS-ISTHMUS PIPELINE BETWEEN SAN JUAN DEL SUR ON NICARAGUA'S PACIFIC COAST AND THE MONKEY POINT REGION ON THE CARIBBEAN. PURPOSE OF THE 150-MILE PIPELINE, HE SAID, WOULD BE TO MOVE ALASKAN AND INDONESIAN OIL TO US EAST COAST MARKETS. SOMOZA ADDED THAT HE HAD AUTHORIZED A MR. SAWYER TO FORM A CONSORTIUM OF LARGE AMERICAN FIRMS TO FIANCE THE STUDIES AND THE CONSTRUCTION OF THE PIPELINE.

2. NOTHING ABOUT THIS PROJECT HAS BEEN NOTED IN LOCAL PRESS THIS YEAR, ALTHOUGH US PAPERS BRUITED POSSIBILITY OF SUCH A PIPELINE LAST MONTH. SOMOZA HAS BEEN VERY CAGEY ABOUT REVEALING DETAILS OF THE PROJECT ALTHOUGH IT HAS COME UP SEVERAL TIME IN HIS DISCUSSIONS WITH THE AMBASSADOR OVER THE PAST SIX MONTHS.

3. PROJECT'S RATIONALE WHICH EMERGES FROM TALKS WITH SOMOZA INCLUDES THE FOLLOWING POINTS:

- THE TRANS-ISTHMIAN PIPELINE WOULD GREATLY SHORTEN SHIPPING DISTANCE BETWEEN ALASKAN AND INDONESIAN OIL SOURCES AND US EAST COAST MARKETS WHERE DEMAND IS GREATES.
- UTILIZATION OF A NICARAGUAN PIPELINE WOULD PROVIDE AN ALTERNATIVE TO USE OF PANAMA CANAL.
- US ENVIRONMENTALISTS WHO HAVE MISGIVINGS ABOUT SHIPPING ALASKAN OIL ACROSS CONTINENTAL US WOULD PRESUMABLY NOT OBJECT STRENUOUSLY TO NICARAGUAN ROUTE.
- NICARAGUA IS A STABLE AND RELIABLE FRIEND UPON WHOSE SUPPORT US CAN ALWAYS COUNT.
- SOMOZA HAS MADE FUNDAMENTAL "POLITICAL" DECISION TO PUT PIPELINE ACROSS COUNTRY AND IS OPTIMISTIC THAT PROJECT WILL BE SUCCESSFULLY IMPLEMENTED.

4. FROM SOMOZA AND OTHER SOURCES IT APPEARS THAT THERE HAS BEEN SOME RECENT MOVEMENT ON PIPELINE PROJECT:

- MINISTER OF ECONOMY REPORTEDLY SIGNED PRELIMINARY CONTRACT THIS AUTUMN GRANTING CONCESSION TO UNSPECIFIED CALIFORNIA CONSORTIUM TO FINANCE LOCATION STUDIES AND TO RAISE FUNDS FOR THE CONSTRUCTION OF \$700 MILLION PIPELINE AND RELATED FACILITIES. LOCATION STUDIES SAID TO BE UNDERWAY.
 - SOMOZA INSISTS THAT A REFINERY BE SET UP SIMULTANEOUSLY WITH CONSTRUCTION OF PIPELINE, PRESUMABLY TO PROCESS SOME OF TRANSHIPPED OIL.
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- CALIFORNIA GROUP INTERESTED IN PIELINE BUT NOT IN REFINERY. HENCE, SOMOZA AND GROUP SEEKING FIND SOMEONE WHO WOULD BUILD REFINERY. (STANDARD OIL AND BRITISH PETROLEUM HAVE BEEN MENTIONED IN CONNECTION WITH OVERALL DEAL BUT THEIR PUTATIVE ROLES REMAIN UNCLEAR.
- MARITIME MUNDIAL, S.A., A SOMOZA-OWNED FERRY BOAT OPERATION, IS TO BE INVOLVED IN VARIOUS STAGES OF PIPELINE PROJECT. (IN 1972, GONE GAVE THAT FIRM EXCLUSIVE RIGHTS TO CONSTRUCT REFINERY ON NICARAGUA'S CARIBBEAN COAST. THAT ACTION PROMPTED CONSIDERABLE CRITI-

CISM LOCALLY-REFS C & D.)

--MIDDLE EAST "CAPITAL" IS REPORTEDLY INTERESTED IN PARTICIPATING IN PROJECT.

--SOMOZA HAS APPROACHED INDONESIAN GOVERNMENT ABOUT SHIPPING OIL THROUGH PIPELINE; INTERMEDIARY WAS AN INDONESIAN GENERAL AND EX-PERTAMINA CHIEF WHO WAS CONTACTED IN MIAMI. (SEE ALSO REF B.)

5. GIVEN SECRECY SURROUNDING NEGOTIATIONS FOR PIPELINE AND REFINERY, IT DIFFICULT FOR EMBASSY TO ASSESS WITH CONFIDENCE FEASIBILITY OF PROJECT AND WHETHER IT REALLY ON TRACK. EMBASSY HAS NOT RECEIVED ANY SOLICITATIONS OF USG POLITICAL OR FINANCIAL SUPPORT. EMBASSY UNAWARE WHETHER SOMOZA OR HIS AGENTS HAVE APPROACHED ALASKAN OIL INTERESTS ABOUT USING PIPELINE. ONLY OTHER NAMES WHICH HAVE COME TO OUR ATTENTION RE PROJECT ARE P.J. FRAWLEY, WEALTHY AMERICAN RESIDENT OF NICARAGUA, AND BROWN & ROOT, ENGINEERING CO. WHICH INQUIRED LAST MONTH ABOUT AVAILABILITY OF LABOR FOR PIPELINE CONSTRUCTION.

6. NOTWITHSTANDING THE MANY GAPS IN OUR KNOWLEDGE ABOUT PROJECT, EMBASSY CONSIDERS THAT FOLLOWING ASPECTS MERIT CAREFUL CONSIDERATION:

--THE STRATEGIC VALUE TO US THAT MIGHT ACCRUE FROM SUCH PIPELINE ACROSS FRIENDLY, RELATIVE STABLE NICARAGUA.

--POSSIBLE REPERCUSSIONS ON PANAMA CANAL NEGOTIATIONS IF US INTERESTS INVOLVED IN NICARAGUA PIPELINE PROJECT.

--ECONOMIC BENEFITS FOR US IF AMERICAN FIRMS GET CONTRACT FOR BUILDING PIPELINE, ASSUMING \$700 MILLION FIGURE CLOSE TO ACCURATE.

7. EMBASSY WOULD APPRECIATE ANY COMMENTS AS WELL AS INFO WHICH ADDRESSEES MAY DEVELOP ABOUT IDENTIFY OF CALIFORNIA CONSORTIUM AND MR. SAWYER, AND ABOUT ANY INTEREST ON PART OF ALASKAN OIL PRODUCERS OR SHIPPERS, AND INDONESIA IN USE OF PIPELINE.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CONSTRUCTION, PETROLEUM INDUSTRY, PIPELINE TRANSPORTATION, PROGRAMS (PROJECTS)
Control Number: n/a
Copy: SINGLE
Draft Date: 09 DEC 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976STATE299440
Document Source: CORE
Document Unique ID: 00
Drafter: ARA/ECP/ITE:SMAYFIELD:PAM
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760455-1001
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761257/aaaabxew.tel
Line Count: 146
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 76 MANAGUA 2345, 74 MANAGUA 4775, 72 MANAGUA 2307, 76 MANAGUA A-102
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 26 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 MAY 2004 by ifshinsr>; APPROVED <22 SEP 2004 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: NICARAGUA'S PROPOSED TRANS-ISTHMIAN PIPELINE
TAGS: BENC, ECRE, EINV, ENRG, PFOR, SENV, ID, NU, PN, US, (SOMOZA DEBAYLE, ANASTASIO)
To: PANAMA GUATEMALA
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006